

Message Text

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ACTION AF-06

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FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC PRIORITY 7735

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C O R R E C T E D C O P Y T E X T

E.O. 11652: N/A

TAGS: BGEN, EINV, KE

SUBJECT: EXIMBANK CREDIT FOR KENYA HOTEL PROPERTIES LTD.

REF STATE 020680

1. EMBASSY HAS RECEIVED NOTE FROM MINISTRY FOREIGN AFFAIRS STRONGLY URGING THAT EXIMBANK AND FIRST NATIONAL CITY BANK MAINTAIN ORIGINAL INTEREST RATE AND TERMS FOR EXPANSION HOTEL NAIROBI INTER-CONTINENTAL.

2. GIST OF NOTE, TEXT BELOW, IS THAT UPWARD ADJUSTMENT OF INTEREST RATE NOW WILL CAUSE NEARLY INSURMOUNTABLE PROBLEMS FOR KENYA HOTEL PROPERTIES LTD. BANKRUPTCY OF FIRM AND HIGHLY UNFAVORABLE PUBLICITY ABOUT U.S. BUSINESS IN KENYA ARE POSSIBLE. KHP OFFICIALS HAVE SAID CONTRACTS WITH SUPPLIERS AND BUILDERS WOULD SUFFER BREACH, WITH SUITS LIKELY, SINCE KHP CANNOT POSSIBLY GET REQUIRED KENYAN PARLIAMENT APPROVAL OF NEW RATE WITHOUT EXCESSIVE DELAYS. REGARDING PUBLICITY, WE DOUBT PARLIAMENT WILL INSPECT DETAILS BEHIND UPWARD ADJUSTMENT OF RATE.

3. ACTION REQUESTED: WE AGAIN STRONGLY RECOMMEND THAT
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EXIMBANK AND FNCB LOOK AT POLICY IMPLIRETIONS THIS CASE

FOR KENYA AND HOLD TO ORIGINAL RATE IN CONNECTION WITH
NEW APPLICATION BEING SUBMITTED BY KHP. END ACTION
REQUESTED.

4. TEXT OF FOREIGN OFFICE NOTE (NON-ESSENTIAL WORDS
OMITTED): QUOTE:

THE MINISTRY OF FOREIGN AFFAIRS OF THE REPUBLIC OF
KENYA PRESENTS ITS COMPLIMENTS TO EMBASSY OF THE
UNITED STATES OF AMERICA AND HAS THE HONOUR TO REQUEST
THE EMBASSY TO TAKE UP THE MATTER CONCERNING THE LOAN
AGREEMENT WHICH HAD BEEN ENTERED INTO BETWEEN KENYA
HOTEL PROPERTIES LIMITED, AND EXIMDXNK AND FIRST NATIONAL
CITY BANK, WITH THE GOVERNMENT OF THE UNITED STATES.
TO MAKE A LONG STORY SHORT, THE MINISTRY UNDERSTANDS
THAT EXIMBANK AND FIRST NATIONAL CITY BANK WISH TO VARY
THE TERMS OF THEIR LOANS TO KENYA COMPANY (KENYA HOTEL
PROPERTIES LIMITED). THESE REQUIREMENTS COMING
WHEN EXTENSION OF INTER-CONTINENTAL HOTEL NAIROBI HAS
BEEN STARTED AND COMMISSIONED, WOULD MEAN A SERIOUS
DELAY IN PUTTING THE FINANCIAL PLAN TOGETHER WITH
LOSSES TO KENYA HOTEL PROPERTIES LIMITED AND
ITS SHAREHOLDERS IN UNRECOVERABLE COSTS, TECHNICAL
FEES, COMMITMENT FEES, FEASIBILITY STUDIES AND OTHER
COSTS, ETC. IN EXCESS OF KSHS. 10.6 MILLIONS.

ALTHOUGH THE COMMITMENT HAD EXPIRED ON 28TH
FEBRUARY 1975, THERE HAD BEEN UNCONFIRMED UNDERSTANDING
BETWEEN THE PARTIES REGARDING THE EXTENSION OF THE
COMMITMENT TO 30TH SEPTEMBER 1977 RESULTANT TO KENYA
HOTEL PROPERTIES ENTERING INTO CONSTRUCTION OBLIGATIONS
FOR CONSTRUCTION OF THE HOTEL. THE MINISTRY EXPRESSES
SERIOUS CONCERN OVER LOSSES AND THE EFFECT TO THE
KENYA'S TOURIST INDUSTRY IF THIS PROJECT WOULD NOW BE
ABANDONED AT THIS STAGE WHICH WOULD POSSIBLY BREAK UP
THE COMPANY.

IT IS KINDLY REQUESTED THAT THE GOVERNMENT OF
UNITED STATES THROUGH THE DEPARTMENT OF STATE
WOULD INTERVENE SO THAT EXIMBANK AND FIRST NATIONAL
CITY BANK DO NOT INSIST ON THE VARIATION OF ORIGINAL
TERMS OF THE LOAN AGREEMENT AT THIS TIME, WHEN SUCH
REQUIREMENT WILL CAUSE CONSIDERABLE DELAYS AND EXTRA
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COSTS TO KENYA HOTEL PROPERTIES LIMITED. BESIDES,
THERE WOULD BE LONG PARLIAMENTARY PROCEDURES TO PRO-
CESS AND APPROVE THE NEW TERMS.

THE GOVERNMENT OF KENYA WOULD BE MOST APPRECIATIVE
IF THE BOARDS OF THE TWO BANKS WOULD CONSIDER REIN-
STATING THE LOAN ON ORIGINAL TERMS TO AVOID ANY
FURTHER DELAYS AND LOSSES IN PUTTING THE FINANCIAL PLAN
TOGETHER TO COMPLETE THE PROJECT.

THE MINISTRY OF FOREIGN AFFAIRS OF THE REPUBLIC OF
KENYA AVAILS ITSELF OF THIS OPPORTUNITY TO RENEW TO THE
EMBASSY OF THE UNITED STATES OF AMERICA ASSURANCES OF
ITS HIGHEST CONSIDERATION.

11TH FEBRUARY, 1976, NAIROBI. UNQUOTE.

DECON 2/12/81
MARSHALL

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